HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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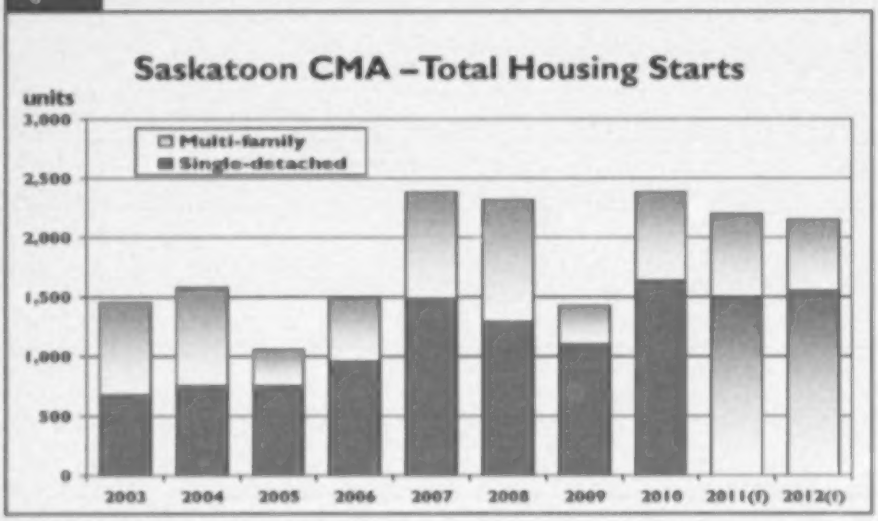
NEW HOME MARKET

Housing starts to moderate through 2012

Last year, a slower pace of price growth coupled with historically low interest rates reinvigorated housing demand in the Saskatoon Census Metropolitan Area (CMA), pushing housing starts to a 27-year high. A total of 2,381 housing units initiated construction, up 67 per cent from 2009. This year, total housing starts across Saskatoon are expected to moderate eight per cent as builders begin construction of 2,200 units. Despite this reduction, however, housing starts will remain elevated through 2012 as higher commodity prices encourage increased production of commodities such as potash and oil. This will spur increased job creation and wage growth, and

Figure 1



Source: CMHC, CMHC Forecast (f)

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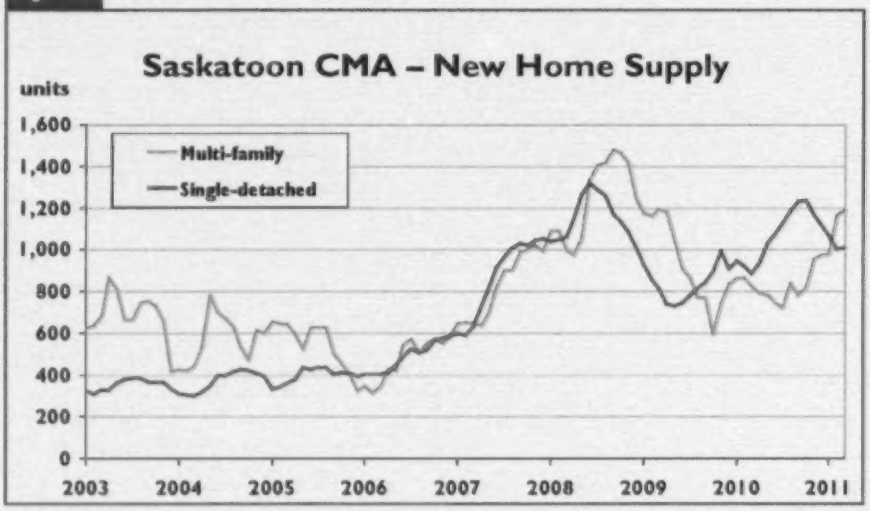
provide a major impetus to consumer demand for housing.

Inhibiting factors to new home construction this year and next include advances in the price of new homes as well as an elevated supply of new and resale units. Collectively, these factors will set the stage for a reduction in total housing starts across metro over the forecast period. Next year, although new home supply will be slightly drawn down from its current peak, it will remain elevated and induce a further reduction in activity as builders begin construction of 2,150 new units.

Figure 2



Source: CMHC

Single-detached starts to moderate in 2011

In 2010, Saskatoon's single-detached home builders began construction of 1,638 units, up 49 per cent from the 1,101 units which broke ground a year prior. This represented the highest production by area builders in the last 30 years. Local builders initiated an average of 137 units each month, almost double the 74 single-detached starts that builders had typically averaged over the prior 10-year period.

Last year's elevated pace of starts propelled an increase in the supply of single-detached homes across metro, a mitigating factor which will impact housing activity over the forecast period. At 1,010 units in March, single-detached supply, which includes units under construction and those that are completed and unoccupied, was up 14 per cent from the previous year. This increase was primarily fuelled by a rise in inventory, although at 836 units at the end of March, units under construction continue to account for the bulk of new single-detached housing supply. The 174 complete but unabsorbed units in March highlight a marked increase from the 95 units which constituted single-detached inventory a year prior.

Given the elevated supply levels, it is unlikely that we will see a repeat of last year's elevated performance this year or next as local builders grow mindful of increased supply levels, particularly unsold units under construction. As well, over the forecast period we anticipate that resale price gains will be subdued relative to advances in the cost of new homes, thus inhibiting some move-up buying. Consequently, despite a continually improving economic landscape and sustained in-migration maintaining demand for single-detached housing, single starts will contract eight per cent this year as builders break ground for 1,500 units. Next year, with supply levels sufficiently depleted and as concerns over inventory wane, single-detached starts will stage a modest uptick as area builders initiate construction of 1,550 units.

Price pressures persist through 2012

Following a 2.8 per cent advance in 2010, Statistics Canada's New House Price Index (NHPI), which measures the change in the price of new homes where the specifications remain the same between two consecutive periods, is expected to rise 2.9 per cent this year and then increase 2.5 per cent in 2012. Last year's gains were attributed to advances in both the house and land components of the NHPI, as the elevated number of housing starts exerted upward pressure on input costs such as land, labour, and building materials. Over the next two years, Saskatoon's builders are expected to maintain an elevated pace of new home production, thus sustaining pressure on factors of production, which will in turn account for the increases in the NHPI this year and next.

Last year, the average absorbed price for new single-detached homes moderated slightly, going from $383,234 in 2009 to $380,600 in

2010. Contrary to the NHPI, the average absorbed price is subject to compositional changes that may arise as a result of the distribution of sales within various price ranges. As an example, shifting consumer demand from larger to smaller homes or homes with fewer features will influence the average price. This was the case in 2010 as 31 per cent of all new single-detached absorptions across metro occurred at price ranges above the $400,000 price point, down from a 36 per cent share in 2009. Fuelled by similar compositional changes, the average absorbed price of new single-detached homes will increase modestly through 2012, rising 1.2 per cent to $385,000, and 2.6 per cent to $395,000 in 2011 and 2012, respectively.

Supply of multiple units to remain elevated through 2012

Multi-family starts, which include semi-detached, row, and apartment units, are on pace to decline six per cent this year. This comes on the heels of a nearly two and a half fold expansion in 2010 which culminated in the initiation of 743 units. Fuelled by an uptick in rental construction, Saskatoon's builders have maintained last year's heightened pace of starts by initiating construction of 358 multi-unit homes to the end of March. Consequently, the supply of multi-family housing in Saskatoon has expanded rapidly in recent months, reaching 1,188 units in March, up 44 per cent from the prior year.

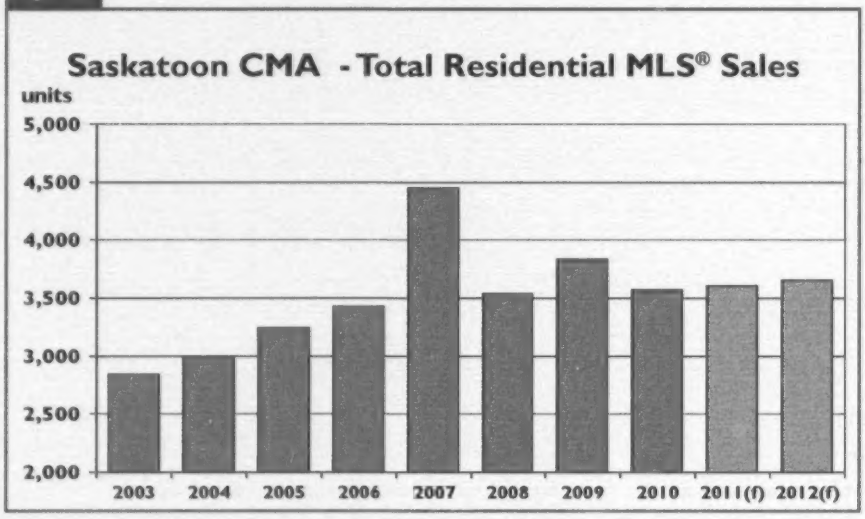
Over the next two years, the elevated supply of multi-family homes in Saskatoon will cause regional builders to temper housing starts and turn their attention to ramping up sales and completing units underway. In spite of the anticipated reduction in starts, however, demand for multi-unit housing is expected to improve over the forecast period. Increases in mortgage rates and higher carrying costs will temper demand in the higher-priced single-detached new and resale markets, enhancing the attractiveness of the multi-unit market for potential homebuyers. Concurrently, metro's persistently low rental apartment vacancy rates as well as various incentives offered by the public sector will continue to spur large numbers of rental apartment starts. On balance, this paves the way for only modest declines in multiple starts over the forecast period as area builders initiate construction of 700 and 600 multi-family units in 2011 and 2012, respectively.

RESALE MARKET

MLS® sales improve this year and next

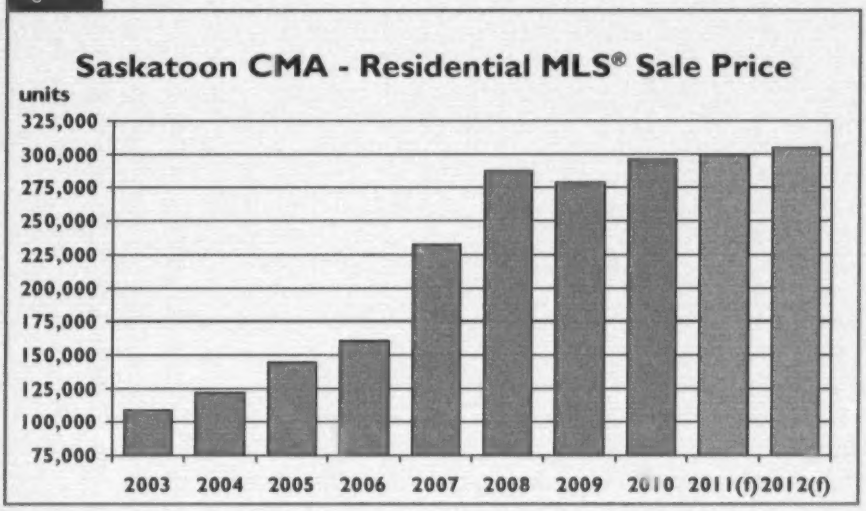
After a modest reduction in sales in 2010, expect Saskatoon's resale market to record a stronger performance this year. Fuelled by an influx of homebuyers eager to seal purchases prior to the implementation of new mortgage regulations in March, resale activity in Saskatoon began the year on a strong footing. To the end of March, sales of existing homes totalled 823 units, up 6.1 per cent year-over-year. However, this heightened pace of sales is not expected to persist through the balance of the year as continuing advances in house prices and increased competition with the new housing sector combine to temper consumer demand for resale homes. Nevertheless, the strong start to the year will mitigate some of the moderation in the latter months, with residential transactions recording a modest improvement to 3,600 sales in 2011. Next year, anchored by a wide selection of listings, slower price gains, sustained job growth, and heightened in-migration, activity in the existing home market will climb 1.4 per cent, bringing annual sales to 3,650 units.

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

Price gains tempered through 2012

Following a 6.2 per cent advance to $296,293 in 2010, average MLS® price growth will be tempered over the forecast period. A compositional shift to sales of homes at the higher price ranges accounted for the bulk of the price gains last year, as homebuyers took advantage of historically low mortgage rates to purchase higher priced homes with more amenities. Accordingly, resale homes priced above $300,000 accounted for 41 per cent of all resale transactions in 2010, up from 35 per cent a year prior.

This year, buoyed by an expanding economy that will spur wage gains, we anticipate that sales of higher priced homes will again fuel increases in the average price, albeit on a more modest scale than recorded in 2010 given expected gains to mortgage rates.

Rising prices in recent months continue to encourage increased listings of resale homes, and at 2,345 units in March, active listings were 8.1 per cent higher than the previous year and elevated by historical standards. The sales-to-active listings ratio, a key barometer to the strength of the housing market, averaged 12.7 per cent during the first three months of 2011, significantly lower than Saskatoon's historical norms. With heightened listings relative to demand, resale price growth in Saskatoon will be modest going into 2012, negating some of the gains from the continuing movement to sales of homes in the higher price ranges. Overall, we anticipate that resale prices will advance modestly over the forecast period, climbing 1.3 per cent to $300,000 this year, prior to a further increase of 1.7 per cent to $305,000 in 2012.

RENTAL MARKET

Average vacancy rate climbs to three per cent in 2011

The average apartment vacancy rate is projected to rise to three per cent this year, up from 2.6 per cent in 2010. This will mark the first time since 2006 that the region's average vacancy rate will reach the three per cent mark, making it easier for renters in Saskatoon to locate a vacant unit. Additions to the rental universe through the introduction of newly constructed units, as well as continued competition from the secondary rental market will provide the major impetus for the increase in average vacancy rate. Last year, 20 per cent of all apartment condominiums surveyed had made their way into the rental market, up from 14 per cent a year prior. Meanwhile, since November 2010, 414 rental units have begun construction across Saskatoon, some of which will be completed in the next few years. This represents a significant turn-around from the last two years when the scant availability of rental spaces was further exacerbated by the limited number of rental starts.

In opposition to the above factors, metro is primed for a repeat of the elevated migration levels that spearheaded low vacancies in recent years, thus ensuring that demand for rental units will remain high over the forecast period. In addition, higher mortgage rates and continuing advances in house prices will inhibit some renter households from moving to homeownership. On balance, these factors will result in a slight increase in the average vacancy rate to three per cent in 2011 and 3.2 per cent in 2012.

Modest increases in average monthly rent through 2012

With the average vacancy rate expected to rise over the forecast period, property managers will temper the pace of rent increases this year and next in an effort to minimise costly tenant turnover. Concurrently,

Figure 5

Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

mortgage rates, while expected to increase slightly, will remain low through the next few years, lessening the monthly cost differential between renting and owning a home. This will create additional incentive for property owners to limit the pace of rent increases this year, in order to minimise the movement of tenants into homeownership.

Accordingly, expect average monthly rent for a two-bedroom apartment to increase two per cent to $950 in the October 2011 rental market survey, and climb further to $975 by October 2012. This will represent the slowest pace of rent increases since 2006, and will be considerably lower than the 10 per cent average rent increases recorded annually between 2006 and 2010.

ECONOMIC OUTLOOK

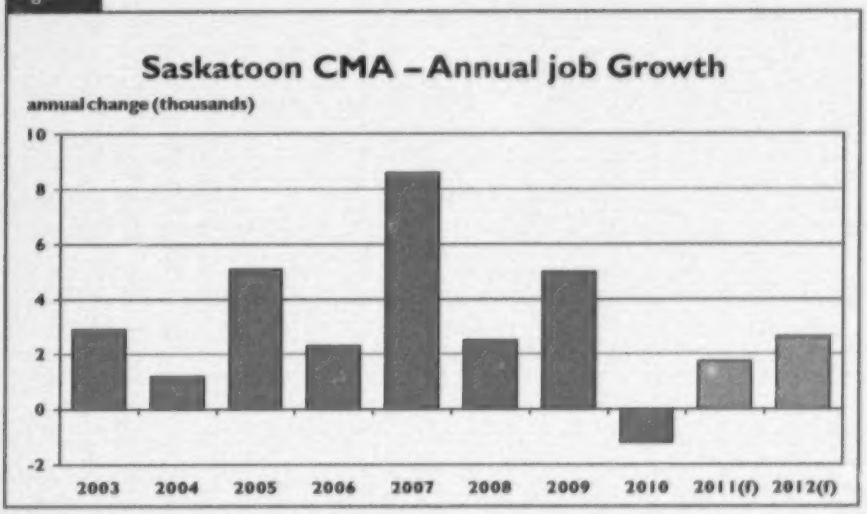
Economy to recapture lost jobs

Last year, a number of factors contributed to a weaker job market in Saskatoon. Weaknesses in price and global demand for uranium and steel framed manufacturing products inhibited employment expansion, as did a decline in agricultural processing and exports resulting from extensive flooding and rainfall. Collectively, these factors slowed the economic recovery in Saskatoon and resulted in average employment declining by 0.8 per cent, representing a loss of about 1,200 positions. This culminated in a one percentage point advance in the region's unemployment rate to 5.6 per cent last year, and inflicted a deviation from Metro's previous impressive record of job creation that saw the addition of an average 3,962 positions annually from 2002 to 2009.

In 2011, Saskatoon's economy is expected to recapture all of the job losses from the prior year with Saskatchewan's energy and resource sector providing a major impetus to this expansion in employment. So far this year, the upturn in commodity prices, particularly the increase in the price of oil, has led to marked increases in drilling and exploration activity. As well, uranium prices have advanced in recent months and, despite minimal gains in price, potash production and exports to the end of January were up 38 per cent from the prior year. Meanwhile, Saskatoon's robust resale and new housing markets continue to support service sector employment, particularly the finance, insurance and real estate sectors. Collectively, these factors have helped to reinvigorate Saskatoon's labour market as following a downward trend from May through December of 2010, average employment has trended upward through the first quarter of 2011.

Moving forward, Saskatoon's economy will benefit from the wide range of major public and private sector investment in new and on-going capital projects related to mining, utilities, health, education, and transportation infrastructure. This, along with the heightened pace of residential and

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

industrial construction will have a favourable impact on the region's labour market over the course of the next two years. Concurrently, continued global economic recovery, in particular, improved demand for uranium and steel framed products, will further strengthen economic activity and provide an additional boost to Saskatoon's labour market over the forecast period. Notwithstanding the above sources of optimism, a number of factors may impede the pace of economic recovery and job growth. Recent flooding in parts of the province could pose a threat to Saskatoon's agriculture, manufacturing, and service sectors, thus slowing the employment expansion. As well, recent events, in particular, the heightened sensitivities over nuclear power generation could impede demand and sales of uranium and further hamper job creation in Saskatoon and across various parts of Saskatchewan in general. Overall, CMHC anticipates average employment will expand by 1.2 per cent in 2011 and 1.8 per cent next year.

Net migration to remain elevated through 2012

Following a net inflow of 5,620 people in 2010, net migration into Saskatoon is expected to remain elevated through 2012 as Metro's relatively favourable economic performance will ensure that Saskatoon maintains its appeal to migrants over the forecast period. Nevertheless, sustained increases in housing costs of all forms will temper some of Saskatoon's draw to migrants going forward. As well, with several other centres also expected to post economic expansions this year and next, we anticipate that the currently heightened pace of inter-provincial migration will be slightly tempered over this period. Consequently, CMHC's forecast calls for net-migration to rely increasingly on the continued inflow of international migrants. Under these conditions, we expect migration to total 5,100 people this year, before rising slightly to 5,200 in 2012.

MORTGAGE RATE OUTLOOK

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Saskatoon CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	3,540	3,834	3,574	3,600	0.7	3,650	1.4
MLS® New Listings	8,141	6,463	6,756	6,600	-2.3	6,800	3.0
MLS® Average Price ($)	287,803	278,895	296,293	300,000	1.3	305,000	1.7
New Home Market							
Starts:							
Single-Detached	1,288	1,101	1,638	1,500	-8.4	1,550	3.3
Multiples	1,031	327	743	700	-5.8	600	-14.3
Starts - Total	2,319	1,428	2,381	2,200	-7.6	2,150	-2.3
Average Price ($):							
Single-Detached	366,526	383,234	380,600	385,000	1.2	395,000	2.6
Median Price ($):							
Single-Detached	354,765	373,262	359,239	364,000	1.3	372,000	2.2
New Housing Price Index (% chg.)	20.6	-7.6	2.8	2.9	-	2.5	-
Rental Market							
October Vacancy Rate (%)	1.9	1.9	2.6	3.0	-	3.2	-
Two-bedroom Average Rent (October) ($)	841	905	934	950	-	975	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	142,000	147,000	145,900	147,650	1.2	150,300	1.8
Employment Growth (%)	1.7	3.5	-0.7	1.2	-	1.8	-
Unemployment rate (%)	3.9	4.6	5.4	5.3	-	4.9	-
Net Migration	4,635	5,504	5,620	5,100	-9.3	5,200	2.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 28, 2011.

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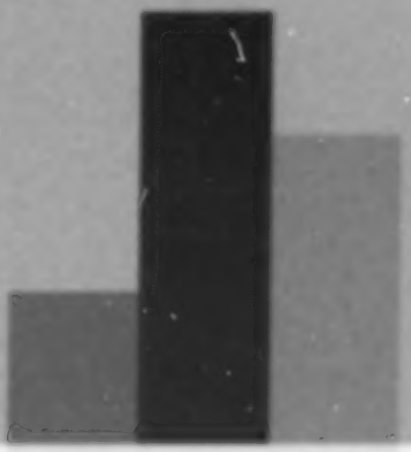

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